

May 13, 2016

Energy Update

EPA Finalizes Requirements for Reducing Methane Emissions from the Oil and Gas Sector

Overview

On May 12, the Environmental Protection Agency (EPA) released the [final rule](#) titled “Oil and Natural Gas Sector: Emission Standards for New, Reconstructed, and Modified Sources”. The final rule is based on the [Notice of Proposed Rulemaking \(NPRM\)](#) that the EPA published on September 18, 2015. The final rule imposes significant new requirements for the oil and gas industry, including producers and natural gas pipeline operators, to identify and limit methane emissions.

Also on May 12, the EPA issued:

- A [notice](#) announcing the “Proposed Information Collection Request; Comment Request; Information Collection Effort for Oil and Gas Facilities”. The Information Collection Request (ICR) is the first step towards establishing emissions regulations for *existing* oil and gas sector sources. The Obama Administration committed to issuing the ICR in March in the [U.S.-Canada Joint Statement on Climate, Energy and Arctic Leadership](#)”. The draft ICR is subject to public comment for 60 days following its publication in the *Federal Register*. Once finalized, the ICR will be submitted to the industry, which must then provide the requested data to the EPA.
- The [final rule](#) on “Source Determination for Certain Emission Units in the Oil and Natural Gas Sector”.
- The [final rule](#) establishing a “Federal Implementation Plan for True Minor Sources in Indian Country in the Oil and Natural Gas Production and Natural Gas Processing Segments of the Oil and Natural Gas Sector”.

As described by an EPA [fact sheet](#), the final rule on new source emissions reductions sets “emissions limits for methane, which is the principal greenhouse gas emitted by equipment and processes in the oil and gas sector.” The final rule includes required emissions reductions for: oil and gas wells; natural gas processing plants; natural gas storage; and natural gas pipelines. Owners and operators of hydraulically fractured wells will be required to implement reduced emissions completions, also known as “green completions”. Prior to implementing green completions, covered wells must “reduce emissions using combustion controls.” The compliance date for the final rule will be sixty days following publication in the *Federal Register*.

Cost-Benefit Estimates

The EPA estimates that the final rule will impose annual capital costs of \$250 million in 2020 and \$360 million in 2025, along with annual engineering costs of \$390 million in 2020 and \$530 million in 2025. According to the EPA, the “quantified net benefits...are estimated to be \$35 million in 2020 and \$170 million in 2025...”

Harmonization with Other Regulations

EPA explains that it “worked closely with the Department of Interior’s Bureau of Land Management (BLM) during development of this rulemaking in order to avoid conflicts in requirements between the [final rule] and BLM’s proposed rulemaking.” BLM published an [NPRM](#) on February 8, 2016, titled “Waste Prevention, Production Subject to Royalties, and Resource Conservation”. As described by the BLM, the regulations are intended “to reduce waste of natural gas from venting, flaring, and leaks during oil and natural gas production activities on onshore Federal and Indian leases”. The BLM regulations would “would require operators to take various actions to reduce waste of gas, establish clear criteria for when flared gas would qualify as waste and therefore be subject to royalties, and clarify the on-site uses of gas that are exempt from royalties.” Industry groups and Members of Congress have raised concerns regarding potential conflicts and overlap between the BLM venting and flaring rule and the EPA’s methane emissions reduction requirements. EPA also stated that it “evaluated existing state and local programs when developing these federal standards and attempted, where possible, to limit potential conflicts with existing state and local requirements.”

Changes from Proposed Rule

Significantly, the final rule eliminates an exemption, included in the NPRM, for oil wells that produce less than 15 barrels of oil equivalent per day. EPA states in the final rule that it “did not receive data showing that low production well sites have lower [greenhouse gas] (principally as methane) or [volatile organic compound] emissions other than non-low production well sites.” EPA also claimed that “the data ...indicated that the potential emissions from these well sites could be as significant as the emissions from non-low production well sites because the type of equipment and the well pressures are more than likely the same”.

The fact sheet describes additional “changes to the final rule based on information received during the comment period.” According to the EPA, the rule:

- “*Sets a fixed schedule for monitoring leaks.* The final rule sets a fixed schedule for monitoring leaks rather than a schedule that varies with performance. For well sites, including low-production well sites, the rule requires leaks monitoring twice a year. Compressor stations -- generally large facilities encompassing numerous pieces of equipment that operate continuously and under significant pressure -- must conduct quarterly leaks monitoring. Owners and operators at all sites will have one year to conduct an initial leaks monitoring survey.” The quarterly inspection requirement for compressor stations is more aggressive than the NPRM’s mandate for semi-annual assessments.

- *“Allows an alternative approach for finding leaks.* In addition to optical gas imaging (special cameras that allow the user to ‘see’ leaks), the final rule allows owners/operators to use ‘Method 21’ with a repair threshold of 500 [parts per million] as an alternative for finding and repairing leaks. Method 21 is an EPA method for determining VOC emissions from process equipment. The method is based on using a portable VOC monitoring instrument, such as an organic vapor analyzer (sometimes referred to as a ‘sniffer’).”
- *“Offers owners/operators the opportunity to use emerging, innovative technologies to monitor leaks.* The final rule outlines the type of information owners/operators would need to submit to receive approval to use those technologies to meet their leaks monitoring requirements.”
- *“Phases in requirements for using a process known as a ‘green completion’ to capture emissions from hydraulically fractured oil wells.* Owners/operators will have six months from the time the final rule is published in the Federal Register to meet the green completion requirements. Owners/operators of hydraulically fractured oil wells will be required to reduce emissions using combustion controls until the green completion requirement takes effect.”

Congressional Reaction:

House Energy and Commerce Committee Chairman Fred Upton (R-MI), Energy and Power Subcommittee Chairman Ed Whitfield (R-KY), and Environment and the Economy Subcommittee Chairman John Shimkus (R-IL), issued a [statement](#) criticizing the final rule. The three warned that the “new set of rules will add significant burdens and costs to an already highly regulated industry.” They promised to “continue to review the legality and merits behind EPA’s regulatory bonanza, and the potential impacts on consumers.”

House Energy and Commerce Committee Ranking Member Frank Pallone (D-NJ) issued a [statement](#) commending the EPA for the rule. Pallone declared that the “standards will help protect public health by reducing dangerous air pollutants linked to asthma attacks, lung damage, cancer, and cardiovascular disease.”

Industry Reaction:

A [statement](#) by Independent Petroleum Association of America (IPAA) Executive Vice President Lee Fuller described some of the key concerns of producers: “...[P]arts of the EPA’s final rules appear to remove flexibilities for producers and could actually undermine industry’s progress. In particular, the fugitive emissions program largely locks in costly, handpicked monitoring technologies and suppresses the development of other approaches that could be more cost-effective and efficient.”

In a [statement](#), Interstate Natural Gas Association of America (INGAA) President Don Santa noted that “INGAA in its comments [on the NPRM] had argued that EPA’s proposed highly prescriptive repair criteria would have resulted in added methane emissions and decreased service reliability.” He also expressed concern “about EPA’s insistence on quarterly monitoring at compressor stations...”

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